



Position Paper

Support for the Cypriot Presidency's Compromise Text of the European Council on the Revision of the Tobacco Excise Directive (TED)

Introduction and European Context

Hermes European Study Centre, an independent think-tank with offices in Rome and Brussels, has for more than a decade promoted a model of European integration grounded in institutional balance, economic sustainability, and respect for national diversity. It is within this framework that this document seeks to express structured and well-founded support for the compromise text put forward by the Cyprus Presidency on 17 April 2026 regarding the revision of Directive 2011/64/EU on tobacco excise duties.

Background: European Commission TED Proposal

In July 2025, the European Commission proposed an update to the Tobacco Excise Directive. The Commission proposal emerged in a political context characterised by growing attention to public health, novel tobacco products, and the reduction of tobacco consumption. However, the proposal introduced large and sudden tax increases. For example, it included an over 1,000% increase in rates on cigars and cigarillos and a 139% increase on cigarettes. The highly automatic and centralised approach to tax increases also raised significant concerns. In particular, the uncapped inflation indexation mechanism risked generating distortive effects, amplifying challenges already present in a European economy marked by structural tensions.

The Cyprus Presidency Pragmatic Response

After assuming the presidency, the Cypriots introduced and continue to develop a compromise intended to build consensus among the Member States. The Presidency's compromise text therefore emerges as a pragmatic response to these concerns. It does not represent a retreat from harmonisation objectives, but rather a reinterpretation of them considering current economic and political conditions.

Its guiding logic is sustainability: to build a credible and shared path capable of enduring over time and securing the consensus required among Member States. The compromise introduces key adjustments, including:

1. More pragmatic increases in minimum duties
2. Extended transitional periods for countries to gradually increase rates
3. An inflation adjustment cap of 6% to avoid sudden price spikes
4. Differentiation across clearly identified product categories
5. A deletion of delegated acts to protect national sovereignty



Fiscal Balance and Economic Stability

One of the most significant elements of the compromise is the decision to avoid excessively rapid and automatic increases in excise duties. Empirical evidence shows that sudden fiscal shocks can generate negative effects on the real economy, affecting domestic demand and the resilience of productive supply chains.

Although the tobacco sector is highly regulated for public health purposes, it remains a significant component of many national economies. It involves a broad network of operators, from production to retail distribution. Overly aggressive fiscal interventions risk destabilising this ecosystem, with non-negligible employment and fiscal repercussions. To avoid these repercussions, the Cyprus proposal introduces more manageable increases.

Comparison of Latest TED Compromises

Product Type	Current Rates	Previous Proposal	Latest Compromise
Cigarettes	60% of weighted average selling price	63% of weighted average selling price	60% of weighted average selling price
Cigars and Cigarillos	€12 per 1,000 items or per kg	€143 per 1,000 items or per kg	€95 per 1,000 items or per kg
Fine-cut Tobacco	50% of weighted average selling price	62% of weighted average selling price	60% of weighted average selling price
Heated Tobacco	N/A	€300 per kg	€280 per kg
Nicotine Pouches	N/A	€107 per kg	€95 per kg

The Presidency's compromise text also introduces a longer transitional period for all tobacco and nicotine products, making it possible to increase revenues without undermining economic stability. This approach reflects a broader understanding of fiscal policy, conceived not merely as a revenue-raising tool, but as a lever for macroeconomic balance.

Instead of automatically increasing rates with inflation, the compromise reinforces regulatory stability by introducing a cap on automatic adjustments. This contributes to creating an investment-friendly environment. Additionally, future rate adjustments will not be implemented through delegated acts, easing concerns over national sovereignty. In a context of global uncertainty, predictability of rules constitutes a crucial competitive factor for the European Union.



Public Health, Social Cohesion and the Internal Market

The Cypriot Presidency's compromise text stands out for its ability to integrate public health objectives with economic and social considerations. Reducing tobacco consumption remains a priority goal, but it is pursued through calibrated instruments that take into account actual market dynamics.

Differentiation among product categories allows for a more sophisticated approach, avoiding the application of uniform measures to fundamentally different realities. In particular, recognition of reduced-risk products opens the way to more effective transition policies, aimed not only at reducing consumption but also at harm mitigation.

From a social perspective, the gradual nature of tax increases helps limit the regressive impact of excise duties. This is particularly important in a context of high inflation, where household purchasing power is already under pressure.

Finally, the compromise addresses the issue of illicit trade in a realistic manner. By reducing the economic incentives for smuggling, it helps protect both tax revenues and market security.

Tax Revenue as a Strategic European Instrument

One of the most innovative aspects of the debate concerns the role of tax revenues from a European perspective. Traditionally considered a national prerogative, they can now be reinterpreted as a potentially strategic resource for the Union.

In particular, the issue of financing European defence has gained unprecedented centrality. Recent geopolitical developments have highlighted the need to strengthen Europe's capacity to act autonomously, both in terms of security and international projection.

Such an objective requires stable and predictable financial resources. In this sense, a well-structured excise system can contribute to generating reliable revenues over time. By reducing revenue volatility and limiting fiscal erosion, the Presidency's compromise text creates the conditions for a more strategic use of these resources.

The prospect of developing instruments such as TEDOR as an own resource of the Union represents a further step in this direction.

Within this framework, the reform of the TED takes on a significance that goes beyond the specific sector, contributing to the construction of genuine European strategic autonomy.



Conclusions and Policy Perspectives

The compromise text presented by the Cyprus Presidency represents an effective synthesis of different needs, demonstrating that it is possible to build balanced and sustainable European policies. Its strength lies in its ability to combine ambition and realism, avoiding both inertia and excessively radical interventions.

For Hermes European Study Centre, it constitutes the most credible foundation for a reform of tobacco taxation that is at once effective, fair and politically sustainable. The success of this initiative will depend on the ability of Member States to recognise the value of compromise and translate it into a concrete agreement.

Looking ahead, it will be essential to carefully monitor the effects of the reform, both in terms of tax revenues and market impact. At the same time, it will be necessary to continue the debate on the role of European fiscal resources, particularly in relation to financing common strategic priorities.

In a Europe called upon to confront increasingly complex challenges, the quality of public policy is a decisive factor. The Cypriot Presidency's compromise text demonstrates that a pragmatic approach, based on dialogue and the search for shared solutions, can provide effective responses even in the most difficult contexts.